

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

Tax-Exempt Bond Project

January 17, 2018

Dorothy Day Community, located at 54 McAllister Street in San Francisco, requested and is being recommended for a reservation of \$2,667,280 in annual federal tax credits to finance the acquisition and rehabilitation of 99 units of housing serving seniors with rents affordable to households earning 50%-60% of area median income (AMI). The project will be developed by Mercy Housing California and is located in Senate District 11 and Assembly District 17.

Project Number CA-18-700

Project Name Dorothy Day Community
Site Address: 54 McAllister Street
San Francisco, CA 94102 County: San Francisco
Census Tract: 125.01

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$2,667,280	\$0
Recommended:	\$2,667,280	\$0

Applicant Information

Applicant: Mercy Housing California 75, L.P.
Contact: Lauren Maddock
Address: 1360 Mission Street, Suite 300
San Francisco, CA 94103
Phone: 415-355-7167
Email: lmaddock@mercyhousing.org

General Partner(s) or Principal Owner(s): Mercy Housing Calwest
General Partner Type: Nonprofit
Parent Company(ies): Mercy Housing California
Developer: Mercy Housing California
Investor/Consultant: Raymond James
Management Agent: Mercy Housing Management Group

Project Information

Construction Type: Acquisition & Rehabilitation
Total # Residential Buildings: 1
Total # of Units: 100
No. & % of Tax Credit Units: 99 100.00%
Federal Set-Aside Elected: 40%/60%
Federal Subsidy: Tax-Exempt
HCD MHP Funding: No
Number of Units @ or below 50% of area median income: 62
Number of Units @ or below 60% of area median income: 37

Bond Information

Issuer: City & County of San Francisco
 Expected Date of Issuance: May 15, 2018

Information

Housing Type: Seniors
 Geographic Area: San Francisco County
 TCAC Project Analyst: Marlene McDonough

Unit Mix

26 SRO/Studio Units
 74 1-Bedroom Units

 100 Total Units

<u>Unit Type & Number</u>	<u>2017 Rents Targeted % of Area Median Income</u>	<u>2017 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
16 SRO/Studio	50%	50%	\$1,152
10 SRO/Studio	60%	60%	\$1,382
46 1 Bedroom	50%	50%	\$1,234
27 1 Bedroom	60%	60%	\$1,480
1 1 Bedroom	Manager's Unit	Manager's Unit	\$0

TCAC-confirmed Projected Lifetime Rent Benefit: \$99,728,640

Project Cost Summary at Application

Land and Acquisition	\$43,853,075
Construction Costs	\$0
Rehabilitation Costs	\$21,974,233
Construction Contingency	\$3,296,135
Relocation	\$1,200,000
Architectural/Engineering	\$1,997,939
Const. Interest, Perm. Financing	\$3,307,895
Legal Fees, Appraisals	\$60,000
Reserves	\$864,141
Other Costs	\$721,408
Developer Fee	\$5,172,987
Commercial Costs	\$0
Total	\$82,447,813

Residential

Construction Cost Per Square Foot:	\$314
Per Unit Cost:	\$824,478
True Cash Per Unit Cost*:	\$514,286

Construction Financing**Permanent Financing**

Source	Amount	Source	Amount
Citibank, N.A.	\$45,000,000	Citibank, N.A. Tranche A	\$2,893,800
Seller Carryback	\$28,346,264	Citibank, N.A. Tranche B	\$13,848,700
Income from Operations	\$1,409,352	Seller Carryback	\$28,346,264
General Partner Equity	\$902,824	Income from Operations	\$1,409,352
Tax Credit Equity	\$2,726,386	Sponsor Loan	\$5,260,027
		General Partner Equity	\$902,824
		Deferred Developer Fee	\$2,672,987
		Tax Credit Equity	\$27,113,859
		TOTAL	\$82,447,813

*Less Fee Waivers, Seller Carryback Loans, and Deferred Developer Fee

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$35,826,234
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$35,496,075
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$46,574,104
Qualified Basis (Acquisition):	\$35,496,075
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	\$1,513,658
Maximum Annual Federal Credit, Acquisition:	\$1,153,622
Total Maximum Annual Federal Credit:	\$2,667,280
Approved Developer Fee (in Project Cost & Eligible Basis):	\$5,172,987
Investor/Consultant:	Raymond James
Federal Tax Credit Factor:	\$1.01654

Per Regulation Section 10327(c)(6), the “as if vacant” land value and the existing improvement value established at application, as well as the eligible basis amount derived from those values, will be used during all subsequent reviews including the placed in service review, for the purpose of determining the final award of Tax Credits.

Per Regulation Section 10327(c)(2)(C), once established at the initial funded application, the developer fee cannot be increased, but may be decreased, in the event of a modification in basis.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	\$71,322,309
Actual Eligible Basis:	\$71,322,309
Unadjusted Threshold Basis Limit:	\$37,266,584
Total Adjusted Threshold Basis Limit:	\$71,551,841

Adjustments to Basis Limit:

Required to Pay State or Federal Prevailing Wages/Financed by labor-affiliated organization employing construction workers paid at least state or federal prevailing wages

95% of Upper Floor Units are Elevator-Serviced

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 62%

Cost Analysis and Line Item Review

Staff analysis of project costs to determine reasonableness found all fees to be within TCAC’s underwriting guidelines and TCAC limitations. Annual operating expenses meet the minimum operating expenses established in the Regulations, and the project pro forma shows a positive cash flow from year one. Staff has calculated federal tax credits based on 3.25% of the qualified basis. Applicants are cautioned to consider the expected federal rate when negotiating with investors. TCAC's financial evaluation at project completion will determine the final allocation.

Significant Information/Additional Conditions

The estimated cost of the project is \$824,478 per unit. This relatively high cost compared to most other areas of California is due in part to the high cost of construction in San Francisco which has been experiencing an escalation of construction costs as high as 10-12% annually, the strong property value and cost, prevailing wages, and extensive rehabilitation to resident units and base building systems.

Local Reviewing Agency

The Local Reviewing Agency has not yet completed a site review of this project. Any negative comments in the LRA report will cause this staff report to be revised to reflect such comments.

Recommendation

Staff recommends that the Committee make a preliminary reservation of tax credits in the following amount(s) contingent upon standard conditions and any additional conditions imposed by the Committee:

Federal Tax Credits/Annual	State Tax Credits/Total
\$2,667,280	\$0

Standard Conditions

If applicant is receiving tax-exempt bond financing from other than CalHFA, the applicant shall apply for a bond allocation from the California Debt Limit Allocation Committee’s next scheduled meeting, if not previously granted an allocation; shall have received an allocation from CDLAC; and, shall issue bonds within time limits specified by CDLAC.

The applicant anticipates financing more than 50% of the project aggregate basis with tax-exempt bond proceeds as calculated by the project tax professional. Therefore, the federal credit reserved for this project will not count against the annual ceiling.

The IRS has advised TCAC that the amount of tax-exempt bonds issued, equivalent to at least 50% of aggregate basis, must remain in place through the first year of the credit period or until eligible basis is finally determined.

TCAC makes the preliminary reservation only for the project specified above in the form presented, and involving the parties referred to in the application. No changes in the development team or the project as presented will be permitted without the express approval of TCAC.

The applicant must pay TCAC a reservation fee calculated in accordance with regulation. Additionally, TCAC requires the project owner to pay a monitoring fee before issuance of tax forms.

As project costs are preliminary estimates only, staff recommends that a reservation be made in the amount of federal credit and state credit shown above on condition that the final project costs be supported by itemized lender approved costs and certified costs after the buildings are placed in service.

All unexpended funds in reserve accounts established for the project must remain with the project to be used for the benefit of the property and/or its residents, except for the portion of any accounts funded with deferred developer fees.

All fees charged to the project must be within TCAC limitations. Fees in excess of these limitations will not be considered when determining the amount of credit when the project is placed-in-service.

The applicant/owner shall be subject to underwriting criteria set forth in Section 10327 of the regulations through the final feasibility analysis performed by TCAC at placed-in-service.

Credit awards are contingent upon applicant's acceptance of any revised total project cost, qualified basis and tax credit amount determined by TCAC in its final feasibility analysis.

CDLAC Additional Conditions: None.